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PACIFIC  **TELESIS**
Group - Washington

February 8, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

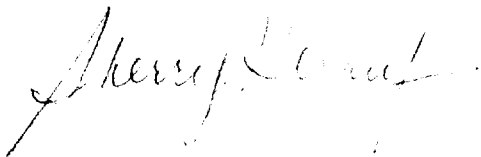
Dear Mr. Caton:

Re: CC Docket No. 92-296 - *Simplification of the Depreciation Prescription Process*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of their "*Reply To Oppositions To Petition For Reconsideration*" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Enclosures

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FEB - 8 1994

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Simplification of the)
Depreciation Prescription Process)
)

CC Docket No. 92-296

REPLY TO OPPOSITIONS TO PETITION FOR RECONSIDERATION

Pacific Bell and Nevada Bell hereby submit their reply to the comments filed in opposition to their Petition for Reconsideration or Clarification dated December 6, 1994 ("Petition") and other petitions for reconsideration filed in the above-captioned proceeding.

Only three parties filed oppositions to the petitions.¹ Those three parties oppose the request by local exchange carriers ("LECs") that the Commission reconsider its selection of the basic factor range and instead select the price cap carrier option in order to provide carriers with the greatest simplification gain. However, there is little or no opposition to Pacific Bell and Nevada Bell's request for reconsideration of certain specific implementation rules of the basic factors range

¹ Opposition to Reconsideration Petitions, American Telephone and Telegraph Company ("AT&T"); Opposition of the California Cable Television Association to Petitions for Reconsideration, California Cable Television Association ("CCTA"); Opposition to Petition for Reconsideration, MCI Telecommunications Corporation ("MCI").

option. In the absence of opposition, Pacific Bell and Nevada Bell urge the Commission to grant reconsideration of the specific requests made by the Petition.

1. THE WIDE VARIATION IN LECS' ACCOUNTS SUPPORTS BROAD RANGES BASED ON FORWARD-LOOKING PARAMETERS.

Of the four specific recommendations made by Pacific Bell and Nevada Bell,² only one recommendation was addressed by the oppositions. CCTA advocates that the Commission go slow in implementing the basic factors range option both as to the number of accounts to be initially subject to the simplified process and as to the ranges themselves. CCTA in essence argues that the ranges should not be broadened at this time -- that reconsideration is premature.³ On the other hand, however, CCTA provides strong support for our request that the ranges be expanded and based on forward-looking parameters. CCTA admits that "an averaging methodology is not likely to capture, or

² The Petition requested reconsideration of four specific aspects of the basic factors range implementation that would extend the immediate usefulness of the basic factors range process: 1) carriers should be able to move within an approved range at any time and without having to provide additional studies; 2) ranges should be developed from forward-looking parameters and should be wider than 1 standard deviation to be broad enough to realistically apply to all LECs; 3) data supporting life curves should not be required in order to propose rates for basic factor range accounts; 4) the Commission should prescribe a range for an account even if some carriers divide the account into study categories. Carriers should be permitted to adopt parameters within the range so long as the aggregate of the study categories for the account is within the prescribed range.

³ CCTA at p. 10.

accurately reflect, the sizeable variance among all of the thirty-three LECs".⁴ CCTA points out that its studies show variances of as much as 2,000 percent among some LECs' accounts. This kind of variance argues for broader ranges established on future-looking parameters so that proper amounts of depreciation will be realistically captured. Future-looking parameters will more likely establish ranges that are and will continue to be realistic and appropriate, rather than obsolete when or shortly after being established. In view of the wide variance cited by CCTA, narrow ranges will serve only a limited number of LECs. Thus, CCTA's study supports the request for broader ranges based on forward looking parameters. Narrow ranges will also have the effect of limiting LEC participation in the simplified process. LECs may choose not to use the range but instead file complete studies as required for non-range accounts, thus effectively eliminating simplification gains.

No other comments were directed to the specific recommendations made by Pacific Bell and Nevada Bell. In the absence of opposition to our recommendations, the Commission should grant the specific recommendations made by the Petition which will improve the efficiency of the basic factors range option.

⁴ CCTA at p. 9.

II. FLEXIBILITY IS CRITICAL AS COMPETITION DEVELOPS.

The primary argument against the adoption of the price cap carrier option raised by opposition comments is that the extent of competition for interexchange services does not yet justify a depreciation prescription process as flexible and streamlined as offered by the price cap carrier option.

There is no question that LECs are subject to rapidly increasing competition for interexchange access services. There is also no bright line that marks sufficient competition to warrant flexibility to respond to competition. Competitors will argue for extensive competition before the LECs are granted flexibility so that the LECs' ability to meet competition is forestalled. While competition intensifies, however, LECs will be disadvantaged in their competitive efforts and competitors will be protected. Flexibility is necessary as competition grows, not just when it is robust. Moreover, obtaining appropriate depreciation rates will take time notwithstanding the Commission's simplification effort. There will always be a time lag between capital expenditures and the establishment of appropriate depreciation rates unless the regulatory process permits LECs to respond quickly. If LECs must wait for the level of competition advocated by those filing in opposition before being permitted the flexibility needed to compete, damage will be done in the interim from which recovery may be impossible when competition is robust.

CCTA and AT&T point out that the LECs should defer their claims for increased depreciation to meet competition until a

separate proceeding suggested by the Commission is initiated. That proceeding would be "specifically aimed at explaining ways in which the depreciation process can be responsive to actual changes in patterns of LEC investment and plant retirement...."⁵ Although we welcome any additional opportunity to work with those specific issues of depreciation associated with infrastructure,⁶ that should not preclude the Commission from reconsidering the issues raised by the petitions for reconsideration. Change resulting from such a proceeding will not respond to the immediate and increasing need for

⁵ CCTA at p. 7

⁶ We are pleased that CCTA agrees with our long held perspective that depreciation expense and infrastructure investment are two distinct policies. (CCTA at p. 5.) Future infrastructure investment is not and should not be directly tied to depreciation expense. On the other hand, the proven ability to recover past investments is reassuring to a LEC contemplating future investments.

depreciation flexibility in the interim which could be accomplished in this proceeding to simplify the depreciation process.

Respectfully submitted,

PACIFIC BELL
NEVADA BELL



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Their Attorneys

Date: February 8, 1994

CERTIFICATE OF SERVICE

I, S. B. Ard, hereby certify that copies of the foregoing "REPLY TO OPPOSITIONS TO PETITION FOR RECONSIDERATION" of Pacific Bell and Nevada Bell re CC Dkt. 92-296, were served by hand or by first-class United States mail, postage prepaid, upon the parties appearing on the attached service list this 8th day of February, 1994.

By:



S. B. Ard

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